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ABSTRACT

The course aims to help students develop an understanding of the organization of corporations, corporate stock and bond transactions, fiscal reports, income tax returns, and dividends. Students also analyze financial statements and complete a corporation practice set. An outline of course content includes: (1) equipment and supplies, (2) corporation formation, (3) advantages and disadvantages of the corporate form of business organization, and (4) corporate transactions affecting the stocks and bonds payable. Suggested procedures, strategies, and learning activities as well as resources for teachers and students are presented. A 16-page appendix offers evaluative instruments and keys for: (1) stocks and bonds, (2) division of corporate income, (3) work sheet and financial statement for a corporation, (4) analyzing financial reports, and (5) a case study. (MW)

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AUTHORIZED COURSE OF INSTRUCTION FOR THE QUINMESTER PROGRAM

CORPORATION ACCOUNTING

Business Education—7709.31 (New: 7624.31)

DE001897

DADE COUNTY PUBLIC SCHOOLS

DIVISION OF INSTRUCTION • 1971

ED 095342

CORPORATION ACCOUNTING

7709.31 (New: 7624.31)

Business Education

Written by Mariano G. Carino
And Approved by the Business Education Steering Committee
For Quinmester Courses

for the

DIVISION OF INSTRUCTION
Dade County Public Schools
Miami, FL 33132
1972

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I. COURSE TITLE—CORPORATION ACCOUNTING

II. COURSE NUMBER—7709.31 (New: 7624.31)

III. COURSE DESCRIPTION

A. Synopsis

Students develop an understanding of the organization of corporations, corporate stock and bond transactions, fiscal reports, income tax returns, and dividends. Students also analyze financial statements and complete a corporation practice set.

B. Occupational Relationships

Fixed-Capital Clerk	Worksheet Clerk
Dividends-Deposit-Voucher Clerk	Accounting Clerk
Account Analyst	Inventory Clerk
Coupon-Collection Clerk	Bookkeeper I
Stock-Transfer Clerk	Bookkeeper II
Trust-Vault Clerk	Audit Clerk
Billing Control Clerk	

IV. COURSE ENROLLMENT GUIDELINES

A. Prior Experiences Needed

1. The student should have attained the objectives of Control Systems in Accounting prior to enrollment in this course.
2. The student may wish to take Cost Accounting concurrently with Corporation Accounting.
3. The student who has studied The Bull and the Bear: The Stock Market will find much information helpful in this accounting course.

B. Pretest

Successful completion of the pretest indicates that the student should proceed to another advanced bookkeeping and accounting course. Partial failure indicates placement within this course.

V. COURSE OF STUDY PERFORMANCE OBJECTIVES

Upon successful completion of this course, the student will be able to—

1. set up the bookkeeping system for a corporation;

2. calculate the values of stock on the basis of par value, book value, market value, and redemption;

3. calculate the dividends per share for cumulative preferred stock, noncumulative preferred stock, participating preferred stock, and nonparticipating preferred stock;

V. COURSE OF STUDY PERFORMANCE OBJECTIVES, Continued

4. list the advantages and disadvantages of a corporation as compared with a single proprietorship and a partnership;

5. record the basic corporation forms and records for a minute book, stock certificate book, capital stock transfer journal, and stockholder ledger;

6. record organization cost;

7. record the transactions of the purchase of a business by a corporation when purchasing the goodwill of a business, and purchasing the business that has goodwill;

8. record in the general journal and cash receipts journal transactions involving the sale of stock for cash, subscriptions receivable, and issuance of capital stock subscribed;

9. record the purchase and sale of treasury stock;

10. record the bonds payable of a corporation;

11. prepare the work sheet of a corporation;

12. prepare the financial statements of a corporation;

13. file a Federal Income Tax return for a corporation;

14. distribute the retained earnings to the stockholders;

15. analyze the financial reports of a corporation by using the balance sheet and income statement in calculating the different ratios and comparative studies to be used; and

16. complete a corporation practice set.

VI. COURSE CONTENT

A. Equipment and Supplies
   1. Basic
      a. Desk 20" x 40" minimum, table top
      b. Machines
         (1) Ten-key adding machine
         (2) Full keyboard adding machine
         (3) Printing or electronic calculator
         (4) Bookkeeping machine
      c. Conference table 30" x 60" x 29" high
      d. Bookkeeping terminology dictionary
      e. Accounting paper—assorted
      f. Textbook
      g. Workbook
      h. Pencil, pen, and ruler (supplied by student)

i. Overhead projector with roller attachment and screen
j. Opaque projector

2. Supplementary
a. Videotape recorder or playback unit
b. Videotape recorder table with electrical assembly
c. Video monitor, 23", with connecting cables
d. Listening station with eight head sets
e. Videotaped lessons—Bookkeeping I (review)
f. Bookkeeping wall charts
g. Learning activity packages—Bookkeeping I (review)

B. Corporation Formation
1. Share of stock
2. Stockholders
3. Stock certificate
4. Board of directors
5. Certificate of incorporation
6. Charter
7. Subscribers
8. Capital stock values
a. Par
b. Book
c. Market (use the financial section of a newspaper)
9. Different kinds of stock
a. Common
b. Cumulative preferred
c. Noncumulative preferred
d. Participating preferred
e. Nonparticipating preferred
10. Proprietorship accounts used in corporation accounting
a. Capital stock
(1) Capital stock—common
(2) Capital stock—preferred
b. Retained earnings, there are other names for this account in which you would want to bring out at this time such as—
(1) Earned surplus
(2) Earnings retained in the business
(3) Retained income
(4) Accumulated earnings

C. Advantages and Disadvantages of the Corporate Form of Business Organization
1. Advantages
a. Stockholder is not personally liable
b. Stockholder may transfer his ownership without the consent of other owners
c. Stockholder may borrow money by using his stock as security
d. Life of a corporation is not relegated to the life of the owners

VI. COURSE CONTENT, Continued

e. Corporation is a legal entity

2. Disadvantages
   a. Charter limits the activities in which a corporation may engage
   b. Corporation may be limited in its ability to borrow funds
   c. Federal and state regulations imposed on corporations
   d. Paper work involved for a corporation

D. Corporation Transactions Affecting the Stocks and Bonds Payable
   1. Organizing the initial corporation books
      a. Organization cost
         (1) Fees and expenses necessary in the formation of a corporation
         (2) Recording (cash payments journal)
         (3) Intangible asset
         (4) Written off over a five year period or longer
      b. Authorization of capital stock
         (1) Approved by the secretary of state, in each state
         (2) Amount of stock or different types of stock a corporation may issue
   2. Purchase of a business by a corporation
      a. Purchase of a business with goodwill
         (1) Goodwill
            (a) Amount paid for the business is greater than book value
            (b) Intangible asset
            (c) Amount is not recognized until either purchased or sold
         (2) Asset accounts are debited for their book value
         (3) Liabilities assumed are credited
         (4) Capital accounts of the business being purchased are credited for the amount agreed upon
         (5) Capital accounts of the business being purchased are not permanent accounts in the operation of the corporation
   3. Sale of capital stock
      a. Cash sale
      b. Installment sale
         (1) Subscriptions receivable
         (2) Capital stock subscribed
         (3) Capital stock
      c. Treasury stock—has a debit balance and is a minus proprietorship account. (stock that has been issued and reacquired by the corporation)
   4. Bonds payable
      a. Record the sale of the bonds issued
      b. Record the interest payment of the bonds
      c. Record the bond sinking fund
         (1) Trustees for the bond holders
         (2) Long-term investment (asset)

VI. COURSE CONTENT, Continued

d. Record the retirement of a bond issued
   (1) Bonds payable is debited which reduces your liability
   (2) Bond sinking fund is credited which reduces your asset and cancels your obligations

5. Fiscal period for a corporation
   a. Prepare the work sheet
      (1) Adjustments
         (a) Goodwill
         (b) Organizational cost
         (c) Federal income tax (state income tax)
      (2) Income statement columns
      (3) Balance sheet columns
   b. Prepare the income statement
      (1) Organizational cost—shown as an expense under the heading "Other Expense"
      (2) Net income calculated before the deduction for federal income taxes
      (3) Federal income taxes deducted from the net income before taxes; difference is "net income after federal income taxes"
   c. Prepare the capital statement
      (1) Capital stock—common and preferred
      (2) Less treasury stock
      (3) Plus capital stock subscribed
      (4) Plus retained earnings
         (a) Net income tax after federal income taxes
         (b) Less goodwill written off
      (5) Less dividends on stock
   d. Prepare the balance sheet
      (1) Subscriptions receivable—listed as an asset under the current asset section
      (2) Bond sinking fund—listed as an asset under the long-term investment
      (3) Goodwill and organization cost—listed as an asset under the intangible assets
      (4) Capital or stockholders equity—listed as a proprietorship account, which might include
         (a) retained earnings
         (b) treasury stock
         (c) capital stock subscribed
   e. Prepare the federal income tax—use the income statement prepared for the corporation in filing the income tax form for the corporation

6. Dividends
   a. Declaring
   b. Recording
   c. Paying

7. Analyzing the financial stability
   a. Prepare comparative financial statements

VI. COURSE CONTENT, Continued

(1) Balance sheet
(2) Capital statement
(3) Income statement

b. Prepare ratio analysis of the financial statement
(1) Current ratio
(2) Acid-test ratio
(3) Equity ratio
(4) Current assets to fixed assets ratio

c. Prepare percentage analysis of financial statements
(1) Compare net income to net sales
(2) Compare cost of merchandise sold to net sales
(3) Compare operating expenses to net sales
(4) Calculate the rate of return on owner's capital

d. Graphic analysis of financial statements
(1) Line
(2) Bar

VII. SUGGESTED PROCEDURES, STRATEGIES, AND LEARNING ACTIVITIES

A. Suggested Teaching Methods
The methods that seem best suited for this course are small and large group discussions, supervised or independent study, video-taped presentations, individualized instructions, lectures, projects, case study, and problem solving.

B. Business Vocabulary
Students increase their accounting terminology as it relates to a special system of keeping records.

C. Case Study
Students analyze business problems based on their knowledge of accounting principles and managerial theories.

D. Videotaped Lessons—Bookkeeping I
Students are encouraged to view selected taped lessons for reinforcement purposes.

E. Learning Activity Packages—Bookkeeping I
The LAPs parallel video taped lessons. They provide activities that might strengthen the students' weaknesses.

F. Study Guides
Study guides may be used as a self-evaluating instrument, part of a pretest, quiz, or study sheet.

G. Supervised Study
This time allotment permits the students to work in groups and/or independently under the teacher's supervision. The teacher may also arrange simulation of an accounting department wherein the students are responsible for a particular phase of the accounting system.

VIII. EVALUATIVE INSTRUMENTS

The tests included in the Appendix are examples of test items that may be used to evaluate the overall progress of each student. The tests have been designed to measure the course objectives as outlined. The key to each test is also provided. The evaluative items included in these tests are as follows:

1. Stocks and Bonds	To determine if the students know the procedures that should be followed in establishing financial funding of a corporation, relating accounting principles, and recording stock and bond business transactions.
2. Division of Corporate Income	To determine if students can calculate the value of the different types of stocks and the distribution of net income to the owners of the corporation.
3. Work Sheet and Financial Statements for a Corporation	To determine if students can prepare the work sheet and the financial statements as they relate to corporation accounting.
4. Analyzing Financial Reports	To measure students' abilities to aid management in decision-making policies of a corporation.
5. Case Study	To measure the students' abilities to grasp managerial concepts, either written or oral.

IX. RESOURCES FOR STUDENTS

A. Books

Blanford, James T.; Clow, Cletus A.; Freeman, M. Herbert; Hanna, J. Marshall; Kahn, Gilbert; and MacDonald, Robert D. Gregg Accounting Advanced Course, 2nd ed. New York: Gregg Division of McGraw-Hill Book Co., 1969.

Boynton, Lewis D.; Carlson, Paul A.; Forkner, Hamden L.; and Swanson, Robert M. 20th Century Bookkeeping and Accounting, Advanced Course, 22nd ed. Cincinnati: South-Western Publishing Company, 1968.

Freeman, Herbert M.; Hanna, Marshall, J.; and Kahn, Gilbert. Bookkeeping and Accounting Simplified, Advanced Course. New York: Gregg Division of McGraw-Hill Book Company, 1958.

IX. RESOURCES FOR STUDENTS, Continued

B. Workbooks

Accompanying workbooks are available for the texts listed above from the publishers.

C. Media

Learning Activity Packages - Available through Textbook Services, 2210 S.W. Third Street, Miami, Florida 33135. #11A-LP-19-Financial Reports for a Merchandising Business.

Videotaped Presentations - Available from the Department of Media Services, Dade County Public Schools.

D. Practice Sets

Reed Auto Supplies, Inc., B873, Cincinnati: South-Western Publishing Company.

Jansen Auto Supplies Co., Inc., B773, Cincinnati: South-Western Publishing Company.

X. RESOURCES FOR TEACHERS

A. Books

Alston, Wayne A. Successful Devices in Teaching Bookkeeping, Portland, Maine: J. Weston Walch, Publisher, 1955.

Boynton, L. D. Accounting—Study and Teaching. 2nd ed. Cincinnati: South-Western Publishing Company, 1970.

Fess, Philip E. and Niswonger, C. Rollin. Accounting Principles, 9th ed., Cincinnati: South-Western Publishing Company, 1965.

Finney, H. A. and Miller, H. E. Principles of Financial Accounting—A Conceptual Approach. Englewood Cliffs: Prentice-Hall, 1968.

Karrenbrock, Wilbert E., and Simons, Harry. Advanced Accounting, Comprehensive Volume, 3rd ed. Cincinnati: South-Western Publishing Company, 1961.

B. Teacher Manuals and Solution Keys

Available from the publishers of the student texts.

C. Magazines and/or Periodicals

Balance Sheet, The. Cincinnati: South-Western Publishing Company. Monthly, October through May.

X. RESOURCES FOR TEACHERS, Continued

C. Magazines and/or Periodicals, Continued

Business Education Forum. Washington, D. C.: National Business Education Association. Monthly, October through May.

Business Education World. Mightstown: Gregg Division of McGraw-Hill Book Company. Five publishings each school year.

Journal of Business Education. East Stroudsburg, PA: Robert Trethaway; Monthly, October through May.

National Business Education Quarterly. Washington, D. C.: National Business Education Association. Quarterly.

APPENDIX

STOCKS AND BONDS

The Morris Corporation is authorized to issue 6,000 shares of common stock par value $100, of which 1,000 shares are outstanding at the beginning of the year. The corporation is also authorized to issue 2,000 shares of 6% preferred stock, par value $100, of which 1,000 shares were outstanding at the beginning of the year.

The Morris Corporation uses the following accounts relating to capital stock:

Subscriptions Receivable—Preferred Stock
Subscriptions Receivable—Common Stock
Capital Stock Subscribed—Preferred Stock
Capital Stock Subscribed—Common Stock
Capital Stock—Preferred
Capital Stock—Common

Directions: Record the following transactions in the cash receipts journal, cash payment journal and a general journal.

Jan. 4. Received subscriptions for common stock as follows:
L. Smith, 83 Taft Street, Miami, Florida, 1,000 shares
K. Brown, 102 N.W. 49th Street, Miami Florida, 500 shares

4. Received cash from subscribers to common stock as the initial partial payment for the subscribed common stock as follows:
L. Smith, $25,000
K. Brown, $12,500

Mar. 1. Received cash from subscribers to common stock for the second payment as follows:
L. Smith, $25,000
K. Brown, $12,500

Apr. 12. Received a subscription for 500 shares of preferred stock from C. Carr, 1884 N.W. 84th Street, Miami, Florida.

12. Received cash, $25,000 from C. Carr for the initial partial payment for his subscribed preferred stock.

May 2. Received cash from subscribers to common stock for the third payment as follows:
L. Smith, $25,000
K. Brown, $12,500

June 1. Received cash, $25,000 from C. Carr as the final payment for his subscribed preferred stock. Issued Preferred Stock Certificate No. 21 to C. Carr for the preferred stock that has been paid in full.

June 15. Received cash, $200,000, for a bond issued with a face value of $200,000.

July 1. Received cash from subscribers to common stock for final payments as follows:
L. Smith, $25,000
K. Brown, $12,500

1. Issued Common Stock Certificates Nos. 49 and 50 for common stock that has been paid in full for:
L. Smith, Certificate No. 49, 1,000 shares
K. Brown, Certificate No. 50, 500 shares

Dec. 31. Issued Check No. 426 for $6,000 to the trustee bank for the semiannual interest on the bonds payable.

31. Issued Check No. 427 for $10,000 to the trustee bank for the bond sinking fund.

DIVISION OF CORPORATE INCOME

The Green Trucking Corporation has issued 500 shares of 5% participating cumulative preferred stock, par value $100 a share. It has also issued 500 shares of $50 par value common stock. The results of the operations over a 5-year period are as follows:

1965	$5,000 net income
1966	$1,000 net loss
1967	$3,500 net income
1968	$ 500 net loss
1969	$8,000 net income

Directions:

1. Show the distribution of net income or net loss for each year.
2. All net losses in the "Balance of Retained Earnings" column must be satisfied first before any distribution of dividends.
3. On your working papers use the columnar headings that are given as follows: Year Ended, Balance of Retained Earnings, Transferred to Retained Earnings, Net Income or Net Loss, Preferred Stock Dividends—Regular; Deficit for the Year; Payment of Previous Deficit; Balance of Deficit for Prior Years, Common Stock Dividends, Dividends Per Share on Each Stock—Preferred; Common.

WORK SHEET AND FINANCIAL STATEMENTS FOR A CORPORATION

On December 31, of the current year, the account balances in the general ledgers of the Mason Corporation were as follows:

Cash	$ 9,000
Accounts Receivable	3,500
Allowance for Bad Debts	120
Merchandise Inventory	15,000
Supplies	2,000
Prepaid Insurance	800
Equipment	20,000
Accumulated Depreciation—Equipment	1,400
Building	50,000
Accumulated Depreciation—Building	2,000
Land	6,000
Goodwill	1,000
Organizational Cost	200
Accounts Payable	2,500
FICA Tax Payable	100
Employees Income Tax Payable	200
State Unemployment Tax Payable	22
Federal Unemployment Tax Payable	80
Dividends Payable	1,000
Property Tax Payable	—
Federal Income Tax Payable	—
Capital Stock	80,000
Retained Earnings	8,500
Income and Expense Summary	—
Sales	90,000
Sales Returns and Allowances	250
Purchases	50,000
Purchases Returns and Allowances	1,500
Purchases Discount	700
Advertising Expense	2,500
Delivery Expense	800
Miscellaneous Selling Expense	300
Sales Salary Expense	8,500
Bad Debts Expense	—
Depreciation Expense—Building	—
Depreciation Expense—Equipment	—
Insurance Expense	—
Miscellaneous Administrative Expense	500
Office Salary Expense	10,000
Payroll Tax Expense	1,000
Property Tax Expense	—
Supplies Expense	—
Organizational Expense	—
Federal Income Tax	—

WORK SHEET AND FINANCIAL STATEMENTS FOR A CORPORATION, Continued

Directions: 1. Prepare the work sheet for the current year ending December 31. Additional data given below:

Allowance for Bad Debts 1/5% of net sales (round off to the nearest dollar)
Merchandise Inventory, December 31, $20,000
Supplies Inventory, December 31, $400
Value of insurance policies, $300
Rate of depreciation on equipment, 10%, (round off)
Rate of depreciation on building, 5% (round off)
Goodwill to be written off, $300
Organizational cost to be written off, $50
Estimated property taxes for the year, $800
Federal income taxes for the period, 25% of net income before taxes (round off)

2. Prepare an income statement.

3. Prepare a capital statement.

4. Prepare a balance sheet.

ANALYZING FINANCIAL REPORTS

Directions: 1. Calculate the following ratios from the financial statements prepared for the Mason Corporation:

1. Current ratio
2. Acid-Test ratio
3. Equity ratio
4. Ratio of current assets to fixed assets

CASE STUDY

As a bookkeeper of a partnership firm you are asked by one of the partners what the advantages and disadvantages are in switching over to a corporate form of business. List three advantages and three disadvantages of the corporate form of business organization as compared to a partnership.

STOCKS AND BONDS KEY

General Journal — Page 12

Date	Account Title	PR	Debit	Credit
19—				
Jan. 4	Sub. Rec.-Com. Stk./L. Smith		100,000	
	Capital Stock Sub., Common			100,000
4	Sub. Rec.-Com. Stk./K. Brown		50,000	
	Capital Stock Sub., Common			50,000
Apr. 12	Sub. Rec.-Pref. Stk./C. Carr		50,000	
	Capital Stock Sub., Preferred			50,000
June 1	Capital Stock Sub. Preferred		50,000	
	Capital Stock Preferred			50,000
	Issued Preferred Stock Certificate No. 21			
July 1	Capital Stock Sub., Common		100,000	
	Capital Stock Common			100,000
	Issued Certificate No. 49			
1	Capital Stock Sub., Common		50,000	
	Capital Stock Common			50,000
	Issued Certificate No. 50			

STOCKS AND BONDS KEY

Cash Receipts Journal — Page 4

Date	Accounts Credited	P R	General Credit	Sales Credit	Accounts Receivable Credit	Cash Debit
19—						
Jan. 4	Sub. Rec.-Com. Stk./L. Smith		25,000			25,000
4	Sub. Rec.-Com. Stk./K. Brown		12,500			12,500
Mar. 1	Sub. Rec.-Com. Stk./L. Smith		25,000			25,000
1	Sub. Rec.-Com. Stk./K. Brown		12,500			12,500
Apr. 12	Sub. Rec.-Pref. Stk./C. Carr		25,000			25,000
May 2	Sub. Rec.-Com. Stk./L. Smith		25,000			25,000
2	Sub. Rec.-Com. Stk./K. Brown		12,500			12,500
June 1	Sub. Rec.-Pref. Stk./C. Carr		25,000			25,000
12	Bonds Payable		200,000			200,000
July 1	Sub. Rec.-Com. Stk./L. Smith		25,000			25,000
1	Sub. Rec.-Com. Stk./K. Brown		12,500			12,500
	Totals		400,000			400,000

Cash Payments Journal — Page 8

Date	Ck. No.	Accounts Debited	P R	General Debit	Accounts Payable Debit	Cash Credit
19—						
Dec. 31	426	Interest Expense		6,000		6,000
31	427	Bond Sinking Fund		10,000		10,000
		Totals		16,000		16,000

DIVISION OF CORPORATE INCOME KEY

Year Ended	Balance of Retained Earnings	Transferred to Retained Earnings	Net Income or Net Loss	Preferred Stock Dividends				Common Stock Dividends	Dividends Per Share on Each Stock	
				Regular	Deficit for the Year	Payment of Previous Deficit	Balance of Deficit for Prior Years		Preferred	Common
1965	0	0	$ 5000	$2500	0	0	0	$2500	$5	$5
1966	(1000)	(1000)	(1000)	0	$2500	0	$2500	0	0	0
1967	0	1000	3500	0	2500	$2500	2500	0	5	0
1968	(500)	(500)	(500)	0	2500	0	5000	0	0	0
1969	0	500	8000	2500	0	5000	0	0	15	0

WORK SHEET AND FINANCIAL STATEMENTS FOR A CORPORATION KEY

Mason Corporation
Work Sheet
For Year Ended December 31, 19—

Account Title	Acct. No.	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash		9000						9000	
Accounts Receivable		3500						3500	
Allowance for Bad Debts			120		a 180				300
Merchandise Inventory		15000		b 20000	c 15000			20000	
Supplies		2000			d 1600			400	
Prepaid Insurance		800			e 500			300	
Equipment		20000						20000	
Accumulated Depreciation/Equip.			1400		f 2000				3400
Building		50000						50000	
Accumulated Depreciation/Build.			2000		g 2500				4500
Land		6000						6000	
Goodwill		1000			h 300			700	
Organizational Cost		200			i 50			150	
Accounts Payable			2500						2500
FICA Tax Payable			100						100
Employees Income Tax Payable			200						200
State Unemployment Tax. Pay.			22						22
Federal Unemployment Tax. Pay.			80						80
Dividends Payable			1000						1000
Property Tax Payable					j 800				800
Federal Income Tax Payable					k 1430				1430
Capital Stock			80000						80000
Retained Earnings			1728	h 300					1428
Income and Expense Summary				c 15000	b 20000	15000	20000		
Sales			90000				90000		
Sales Returns and Allowances		250				250			
Purchases		50000				50000			
Purchases Return and Allowance			1500				1500		
Purchases Discount			700				700		
Advertising Expense		2500				2500			
Total		160250	181350	35300	44360	67750	112200	110050	95760

WORK SHEET AND FINANCIAL STATEMENTS FOR A CORPORATION, Continued

Account Title	Acct. No.	Trial Balance Debit	Trial Balance Credit	Adjustments		Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
				Debit	Credit				
Totals		160250	181350	35300	44360	67750	112200	110050	95760
Delivery Expense		800				800			
Miscellaneous Selling Expense		300				300			
Sales Salary Expense		8500				8500			
Bad Debts Expense				a 180		180			
Depreciation Expense-Building				g 2500		2500			
Depreciation Expense-Equip.				f 2000		2000			
Insurance Expense				e 500		500			
Miscellaneous Administrative Exp.		500				500			
Office Salary Expense		10000				10000			
Payroll Tax Expense		1000				1000			
Property Tax Expense				j 800		800			
Supplies Expense				d 1600		1600			
Organizational Expense				i 50		50			
		181350	181350						
Federal Income Tax				k 1430		1430			
				44360	44360	97910	112200	110050	95760
Net Income after Federal Taxes						14290			14290
						112200	112200	110050	110050

Mason Corporation
Income Statement
For Year Ended December 31, 19—

Income from Sales:				
Sales			$90000	
Less Sales Returns and Allowances			250	
Net Sales				$89750
Cost of Merchandise Sold:				
Merchandise Inventory January 1, 19—			15000	
Purchases		$50000		
Less Purchases Returns and All.	$1500			
Purchases Discount	700	2200		
Net Purchases			47800	
Total Cost of Merchandise Available for Sale			62800	
Less Merchandise Inventory, December 31, 19—			20000	
Cost of Merchandise Sold				42800
Gross Profit on Sales				46950
Operating Expenses:				
Selling Expenses:				
Advertising Expense		$ 2500		
Delivery Expense		800		
Miscellaneous Selling Expense		300		
Sales Salary Expense		8500		
Depreciation Expense-Building		2500		
Depreciation Expense-Equipment		2000		
Total Selling Expenses			$16600	
Administrative Expneses:				
Bad Debts Expense		$ 180		
Insurance Expense		500		
Miscellaneous Administrative Expense		500		
Office Salary Expense		10000		
Payroll Tax Expense		1000		
Property Tax Expense		800		
Supplies Expense		1600		
Total Administrative Expense			14580	
Total Operating Expenses				31180
Net Income From Operations				15770
Other Expenses:				
Organizational Expense				50
Net Income Before Federal Income Taxes				15720
Less Federal Income Taxes				1430
Net Income After Federal Income Taxes				$14290

WORK SHEET AND FINANCIAL STATEMENT FOR A CORPORATION SOLUTION, Continued

Mason Corporation
Capital Statement
For Year Ended December 31, 19—

Capital Stock			$80000
Retained Earnings:			
Balance January 1, 19—	$ 1728		
Net Income After Income Taxes	14290		
Total Retained Earnings Available		$16018	
Less: Goodwill Written Off		300	
Balance December 31, 19—			15718
Total Capital December 31, 19—			$95718

WORK SHEET AND FINANCIAL STATEMENT FOR A CORPORATION SOLUTION, Continued

Mason Corporation
Balance Sheet
December 31, 19—

Assets			
Current Assets:			
Cash		$ 9000	
Accounts Receivable	$ 3500		
Less Allowances for Bad Debts	300	3200	
Merchandise Inventory		20000	
Supplies		400	
Prepaid Insurance		300	
Total Current Assets			$ 32900
Fixed Assets:			
Equipment	$20000		
Less: Accumulated Depreciation-Equip.	3400	16600	
Building	50000		
Less: Accumulated Depreciation-Build.	4500	45500	
Land		6000	
Total Fixed Assets			68100
Intangible Assets:			
Goodwill		700	
Organizational Cost		150	
Total Intangible Assets			850
Total Assets			$101850
Liabilities			
Current Liabilities:			
Accounts Payable		$ 2500	
FICA Tax Payable		100	
Employee Income Tax Payable		200	
State Unemployment Tax Payable		22	
Federal Unemployment Tax Payable		80	
Dividends Payable		1000	
Property Tax Payable		800	
Federal Income Tax Payable		1430	
Total Current Liabilities			$ 6132
Capital			
Capital Stock		80000	
Retained Earnings		15718	
Total Capital			95718
Total Liabilities and Capital			$101850

ANALYZING FINANCIAL REPORTS SOLUTION

1. Current ratio: $\frac{\text{current assets}}{\text{current liabilities}} = \frac{\$32,900}{\$\ 6,132} = 5.4 : 1$

2. Acid-Test ratio: $\frac{\text{quick assets}}{\text{current liabilities}} = \frac{\$12,200}{\$\ 6,132} = 2.0 : 1$

3. Equity ratio: $\frac{\text{total capital}}{\text{total liabilities}} = \frac{\$95,718}{\$\ 6,132} = 15.6 : 1$

4. Ratio of current assets to fixed assets: $\frac{\text{current assets}}{\text{fixed assets}} = \frac{\$32,900}{\$68,100} = .5 : 1$

CASE STUDY KEY

Advantages

1. Stockholders not personally liable.
2. Stockholders may transfer their ownership without the consent of the other owners.
3. Stockholders may borrow money by using their stock as security.
4. Life of a corporation is not relegated to the life of the owners.
5. Corporation is a legal entity.

Disadvantages

1. Charter limits activities in which a corporation may engage.
2. Corporation may be limited in its ability to borrow funds.
3. Federal and state regulations imposed on corporations.
4. Paper work involved for a corporation.